

LEMON GROVE SANITATION DISTRICT
AGENDA ITEM SUMMARY

Item No. 2
Mtg. Date November 15, 2016
Dept. Public Works

Item Title: Wastewater Rate Case Study and Request for District Board Direction to Notice Public Hearings for Sanitation District Board Meetings

Staff Contact: Mike James, Assistant City Manager / Public Works Director

Recommendation:

Accept the wastewater rate case study (**Attachment A**) and proceed with public notification in accordance with Proposition 218.

Item Summary:

On May 3, 2015, the Sanitation District Board (Board) elected to maintain the wastewater rates through Fiscal Year 2016-2017. This decision was based on information that staff presented to the Board that accounted for all District and City of San Diego capital improvement projects that were anticipated during the next one year period. In addition, staff projected the District and City of San Diego capital expenditures for the next four years based on existing CIP program allocations provided by City of San Diego staff. However, in October 2016, the City of San Diego's City Council approved two engineering design contracts that support an accelerated San Diego Pure Water Program (Pure Water) schedule that will increase capital improvement project expenditures in the next four years. These new costs will result in an anticipated increase of \$3,728,012 increase to the District during the next four years. As such, an updated wastewater rate analysis was performed to account for the Pure Water program costs.

The staff report (**Attachment A**) details the background of District events related to the Sanitation District, recent decisions made by the City of San Diego and the impacts to the District, and lastly, staff's recommendation moving forward.

Fiscal Impact:

If approved, Amendment No. 2 to the agreement with NBS Consultants will add \$18,000.00 to the existing contractual total of \$25,630.27. The new agreement total will not exceed \$43,630.27.

Environmental Review:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Not subject to review | <input type="checkbox"/> Negative Declaration |
| <input type="checkbox"/> Categorical Exemption, Section [] | <input type="checkbox"/> Mitigated Negative Declaration |

Public Information:

- | | | |
|--|---|---|
| <input checked="" type="checkbox"/> None | <input type="checkbox"/> Newsletter article | <input type="checkbox"/> Notice to property owners within 300 ft. |
| <input type="checkbox"/> Notice published in local newspaper | <input type="checkbox"/> Neighborhood meeting | |

Attachments:

- | | |
|-------------------------------|-----------------------------------|
| A. Staff Report | C. Draft Notice of Public Hearing |
| B. Wastewater Rate Case Study | |

Attachment A

LEMON GROVE SANITATION DISTRICT STAFF REPORT

Item No. 2

Mtg. Date November 15, 2016

Item Title: Wastewater Rate Case Study and Request for District Board Direction to Notice Public Hearings for Future Sanitation District Board Meetings

Staff Contact: Mike James, Assistant City Manager / Public Works Director

Background:

On May 3, 2015, the Sanitation District Board (Board) adopted a resolution maintaining the equivalent dwelling unit rate at \$553.17 through Fiscal Year 2016-2017 (FY 2016-17). That decision was based on cost estimates provided by the City of San Diego which included an estimated 20-year timeline to design and construct a San Diego Pure Water Program (Pure Water) program that would yield at least 83 million gallons of potable water by December 31, 2035.

However, in October 2016, the City of San Diego's City Council approved an accelerated Pure Water design and construction schedule that increased capital expenditures impacting the current four year wastewater rate study that is being finalized by NBS Government Finance Group (NBS). Table 1 highlights the difference between what District staff was provided by the City of San Diego staff to budget and what was recently provided to the District, in September 2016.

Table 1: Pure Water Cost Estimate for All Metro Commission/JPA Participating Agencies (PA)

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Budgeted	\$70,000,000	\$75,000,000	\$77,300,000	\$80,000,000	\$302,300,000
New Estimate	\$77,980,977	\$86,957,811	\$127,936,608	\$112,980,490	\$405,855,886
Difference	(\$7,980,977)	(\$11,957,811)	(\$50,636,608)	(\$32,980,490)	(\$103,555,886)
Lemon Grove's Share	(\$287,315)	(\$430,481)	(\$1,822,918)	(\$1,187,298)	(\$3,728,012)

These unanticipated costs shown above are the portion allocated to the participating agencies in Metro Wastewater Commission/Joint Powers Authority. The District makes up approximately 3.6% of the participating agencies portion of 33.5%. While these costs provided in September were for preliminary planning purposes only, in October 2016, the City of San Diego's City Council approved two engineering design contracts that support an accelerated Pure Water schedule that will advance expenditures into the next four years. These unanticipated costs equal \$3,728,012 and staff recommends that the costs are accounted for in the District's wastewater rate study.

Discussion:

On August 16, 2016, the Board directed staff to continue to work with NBS to complete the five year wastewater rate study (through FY 2020-21) to include a connection fee analysis. The wastewater rate study is complete (**Attachment B**). Staff will continue to work with NBS to prepare and finalize the connection fee analysis and will be available for final review later this fiscal year.

When the Board approved the wastewater rates for FY 2015-16 a chief benefit of approving only one year at that time was the ability to adjust rates, if needed, during the remaining four year

Attachment A

period. At that time, the Board expressed a concern that the Pure Water program costs were unknown and the City of San Diego still did not receive approval of its modified permit application. While the modified permit application still has not been approved, the updated Pure Water program costs were provided to District staff. In turn, those expenditures were provided to NBS to include in the study. In looking at the study, the following key areas are important to highlight:

- *Rate Increase* - The Pure Water program costs accelerated the anticipated rate increase. An increase is now recommended to take effect in FY 2017-18 rather than FY 2018-19.

Table 2: Change in Recommended Rate Structure

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Prior 4 Year Estimate	0% (\$553.17)	3% (\$569.77)	3% (\$586.86)	3% (\$604.46)
Revised 4 Year Estimate	3% (\$569.77)	3% (\$586.86)	3% (\$604.46)	3% (\$622.60)

- *Operation and Maintenance Costs* – Costs that are not affiliated with the City of San Diego transportation or treatment are not anticipated to increase beyond standard cost of living increases.
- *New Reserve Target Amount and New Reserve Fund* – The study recommends two changes. First, that the operating reserve requirement established by the Board is increased from 40% to 55%. The increase is recommended because the District experiences high peaks and valleys in its cash position throughout the year due to semi-annual revenue collection. Second, creating a capital rehabilitation and replacement reserve. This will serve as a starting point for addressing long-term capital system replacement needs by saving 3 percent of the net depreciable capital assets to assist in a 33-year replacement cycle for capital assets.
- *Connection Fee Fund* – Establish a separate fund to maintain connection fee revenue pursuant to California Government Code §66013(6)(C). As a reminder, the connection fee analysis is currently being performed by NBS and will be presented later this fiscal year. Those fees will be deposited into this separate fund.
- *Reserves Balance* – Due to limited number of capital improvement projects completed by the District the reserve balance is greater than the two established safeguards in place. The reserve fund is proposed to be utilized to minimize the amount and duration of rate increases to the District. Beginning in FY 2016-17 the reserve balance is estimated at \$16,507,541. At the conclusion of FY 2020-21 the reserve balance will decrease to \$9,455,605. The discussion of new reserve funds does not restrict the use of reserve funds. The Board still has the ability move funds between reserve accounts, if needed.
- *Pay As You Go* – With the current cash balance in the District's reserve fund there is not a need to seek any financing to support future District capital improvement program projects. By paying cash for project the District avoids any interest costs and/or fees associated with funding mechanisms that could be utilized for capital projects.

A critical expenditure that still remains outstanding from the current rate study is the requirement that secondary treatment construction costs may still be required in the future, even if the modified permit is approved for the next five year period. While those costs will fall outside of the next four year rate study, the total impact to the District may be significant. The last cost estimate provided by the City of San Diego for secondary treatment totaled approximately \$3.6 billion. The PA's portion equals 33.5% (or \$1.2 billion) of which the District would be responsible for funding 1.2% (or \$43.4 million).

Attachment A

Staff will continue to work with the other participating agencies to reduce the costs for future secondary treatment by searching for better ways to integrate the Pure Water Program into the existing wastewater program. But if the District and PA's are unsuccessful, and the City of San Diego continues to act unilaterally, the future cost of \$3.6 billion for secondary treatment could become a reality.

Timeline Moving Forward

If the Board accepts the study as presented, staff recommends that the Board authorize staff to follow the timeline, shown below, to comply with Proposition 218 requirements. In order to adopt the recommended rate structure the Board must first hold two public hearings that are noticed at least 45 days prior to the public hearing (**Attachment D**). Following the hearings, the Board may proceed to adopt the recommended rates for implementation with the FY 2017-18 tax rolls.

- November 15, 2016 Board Meeting – Wastewater rate study presentation
- March 4, 2017 No later than date to provide notices to all District members
- April 18, 2017 Board Meeting – Public hearing to introduce ordinance
- May 2, 2017 Board Meeting – Second reading and adoption of ordinance
- July 1, 2017 No sooner than July 1st the new rates will take effect

As in years past, staff will continuously monitor the cost assumptions provided by the City of San Diego in addition to District expenditures. Should any assumption or District expenditures significantly increase or decrease, staff will return to the Board to re-evaluate the recommended rate structure.

As noted in the timeline above, it is recommended that the Board implement a rate increase one year before it would have been necessary. As such, staff requests that the Board approve an amendment with NBS to provide all noticing requirements to satisfy Proposition 218 as it relates to the proposed wastewater rate increases. At the time this report was finalized the proposal was not available for print, however staff confirmed with NBS that the anticipated work will not exceed \$18,000.00. The amendment, which will be Amendment No. 2 to the current agreement, will increase the total agreement cost by \$18,000.00. The new total contract amount payable to NBS will not exceed \$43,630.27. Table 3 highlights the costs and scope of work changes to the agreement with NBS.

Table 3: NBS Government Finance Group Agreement Summary

	Cost Change	Agreement Cost	Scope of Work
Original Agreement	\$0.00	\$43,235.00	Calculate minimum EDU based on all anticipated expenditures for five years
Amendment No. 1	(\$17,604.73)	\$25,630.27	Include connection fee analysis and remove the additional analysis.
Amendment No. 2 (Proposed)	\$18,000.00	\$43,630.27	Include tasks associated with Prop. 218 noticing and meeting attendance.

Staff recommends that the duration of the NBS agreement is extended from January 5, 2017 through June 30, 2017. This additional time will allow NBS and District staff to finalize the connection fees analysis as well as satisfy the noticing requirements that will also include two public hearings that NBS staff will present.

Attachment A

Conclusion:

Staff recommends that the District Board accepts the wastewater rate case study (**Attachment B**) and approves Amendment No. 2 to the existing agreement with NBS Consultants to notice (**Attachment D**) and manage the public hearings for the future Sanitation District Board Public Hearings.



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TECHNICAL MEMORANDUM

TO: MIKE JAMES, ASSISTANT CITY MANAGER / PUBLIC WORKS DIRECTOR
CITY OF LEMON GROVE

FROM: KIM BOEHLER, ASSOCIATE DIRECTOR
GREG HENRY, UTILITY RATE ANALYST

SUBJECT: SUMMARY OF SEWER RATE STUDY RESULTS FOR SANITATION DISTRICT

DATE: NOVEMBER 10, 2016

PURPOSE

Lemon Grove Sanitation District (District) retained NBS in December 2015 to conduct a sewer rate study for several reasons, including meeting long-term revenue requirements, ensuring the utility will maintain adequate reserves in the long-term, providing adequate funding for capital improvements.

Since our previous update in April of this year, the District Board (Board) decided to maintain the current rate structure and existing EDU assignments to each parcel; therefore, the rate adjustments presented in this memo are based on the overall percentage increase in rate revenue needed to meet the revenue requirements through FY 2020/21.

The financial forecast presented in this study generates sufficient revenue to meet projected funding requirements, including funding approximately \$7.5 million¹ in capital rehabilitation and improvement projects during FY 2016/17 through FY 2020/21. The primary reason the proposed rate increases are needed, is due to the changing cost of treatment by San Diego Metropolitan Sewerage System (Metro). Metro's costs are expected to change significantly due to the construction of the Pure Water San Diego Program water reuse project.

¹ The annual planned capital improvement costs are listed in **Figure 2** and includes projected annual construction cost inflation.



Attachment B

KEY STUDY ASSUMPTIONS

Inflation and Growth Projections: To develop a 10-year financial plan for the District, the following projected inflation and customer growth assumptions were used:

- According to City projections, customer growth per year from FY 2017/18 through FY 2020/21 is approximately: 0.27 percent, 0.27 percent, 3.17 percent, and 0 percent, respectively.
- General costs are inflated at 3 percent annually.
- Labor costs and retirement benefit costs are inflated at 3 percent annually.
- Health benefits costs are inflated at 4 percent annually.
- Natural gas costs are inflated by 4 percent annually.
- Electricity costs are inflated by 4.4 percent annually.
- Metro costs are expected to vary greatly through FY 2021/22 as the Pure Water Program is constructed. Annual changes are as follows and are based upon the *high range* projected annual cost for Lemon Grove Sanitation District provided by Metro at the October 6th meeting of the Metro Wastewater JPA:
 - ✓ \$2,776,455 in FY 2016/17
 - ✓ \$2,968,482 in FY 2017/18
 - ✓ \$3,327,176 in FY 2018/19
 - ✓ \$4,993,534 in FY 2019/20
 - ✓ \$4,473,368 in FY 2020/21
 - ✓ \$3,217,449 in FY 2021/22
- Annual costs are assumed to increase at 3 percent annual inflation thereafter.
- Sewage Transportation costs are inflated at 1.6 percent annually.

The following sections provide an overview of the financial forecast.

DISTRICT REVENUE REQUIREMENTS

It is important for municipal utilities to maintain reasonable reserves in order to handle minor emergencies, fund working capital, maintain a good credit rating, and generally follow sound financial management practices. Rate increases are governed by the need to meet operating and capital costs, and maintain sufficient reserve funds. The current condition of the District, with regard to these objectives, is as follows:

- **Meeting Net Revenue Requirements:** The Sanitation District currently collects sufficient revenue to fund all operating expenses. However, due to the expected changes to Metro's treatment costs, current revenue will soon be insufficient to cover operating costs. Because these costs are expected to spike and then return to a lower (but still higher than current) level, reserves should be used to bridge the District through peak expenditure years. Rate increases are needed to reach the new "normal" Metro treatment costs. For FY 2016/17 through 2020/21, the projected net revenue requirement² ranges from approximately \$5.2 million to \$7.7 million.

Additionally, non-operating expenses (namely, capital projects) are expected to draw on reserves, slowly depleting them over time. Once reserves have settled at minimum target levels, rate revenue will be required to fund capital projects.

- **Building and Maintaining Reserve Funds:** The District should maintain sufficient reserves for the utility. NBS recommends that the District consider increasing its *minimum* reserve fund targets to the metrics described below.

² Net Revenue Requirements calculated as: total annual expenses plus rate-funded capital costs, less non-rate revenues.

- ✓ **Operating Reserve** – should equal 180 days of the District's budgeted annual operating expenses, which is equal to a 6-month (or 50 percent) cash reserve for normal operations. An Operating Reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures, such as those caused by weather patterns, the natural inflow and outflow of cash during billing cycles, natural variability in demand-based revenue streams (for example, volumetric charges), and—particularly in periods of economic distress—changes or trends in age of receivables. NBS recommends increasing the operating reserve above the existing target of 40 percent.

The Government Finance Officers Association (GFOA) recommends that an enterprise fund begin with an operating reserve target of 90 days and adjust based upon "the particular characteristics"³ of that fund.

The following are the primary characteristics of the District that lead to NBS' recommendation of a higher (180-day) operating reserve:

- **Cash cycles** – The District experiences high peaks and valleys in its cash position throughout the year due to semi-annual revenue collection.
 - **Control over expenses** – The District has limited control⁴, of Metro's costs, which are 40 to 55 percent of the District's total expenditures.
- ✓ **Rate Stabilization Reserve** – is currently maintained and equal to 1 year of Metro costs, per existing District practice. NBS recommends that the District maintain this reserve as a hedge against the need for unexpected future increases in Metro's costs.
 - ✓ **Establishing a Capital Rehabilitation & Replacement Reserve** – a capital reserve should typically be equal to a *minimum* of 3 percent of net depreciable capital assets, which equates to a 33-year replacement cycle for capital assets. This target serves simply as a starting point for addressing long-term capital system replacement needs. Total net depreciable capital assets valuation used to establish this reserve target should include 1.31 percent of Metro's net depreciable capital assets. The 1.31 percent represents the District's expected share of Metro's of FY 2016/17 Capital Improvement Costs.
 - ✓ **Establishing a Connection Fee Fund:** NBS recommends that the District create a separate fund to maintain connection fee revenue pursuant to California Government Code §66013(6)(c), which states:

"A local agency receiving payment of a charge as specified in paragraph (3) of subdivision (b) [the connection fee] shall deposit it in a separate capital facilities fund with other charges received, and account for the charges in a manner to avoid any commingling with other moneys of the local agency, except for investments, and shall expend those charges solely for the purposes for which the charges were collected. Any interest income earned from the investment of moneys in the capital facilities fund shall be deposited in that fund."

³ *Determining the Appropriate Levels of Working Capital in Enterprise Funds*, <http://www.gfoa.org/determining-appropriate-levels-working-capital-enterprise-funds>.

⁴ Through the Metro Wastewater Joint Powers Authority (JPA).

Attachment B

Figure 1 summarizes the sources and uses of funds, net revenue requirements, and recommended annual percent increases in total rate revenue for the next 5 years. As this figure shows, NBS assumes the District will forego a rate increase for FY 2016/17 but implement 3 percent increases, annually in the following four years. The District should expect surpluses until Metro treatment costs spike in FY 2019/20 and 2020/21. These surpluses are used to maintain reserves at recommended levels, offset the anticipated spike in treatment costs and to fund the District's capital improvement program, allowing for a slower, incremental increase to rates.

Figure 1. Summary of Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected			
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sources of Sewer Funds					
Rate Revenue Under Prevailing Rates	\$ 5,903,000	\$ 5,919,053	\$ 5,935,106	\$ 6,123,159	\$ 6,123,159
Other Operating Revenue	3,000	3,008	3,016	3,112	3,112
Interest Earnings (in Operating & Capital Reserves)	27,814	13,080	20,618	29,670	47,988
Total Sources of Funds	\$ 5,933,814	\$ 5,935,141	\$ 5,958,740	\$ 6,155,940	\$ 6,174,258
Uses of Sewer Funds					
Metro Annual Capacity & Treatment (5)	\$ 2,776,455	\$ 2,968,482	\$ 3,327,176	\$ 4,993,534	\$ 4,473,368
Other Operating Expenses	\$ 2,465,635	\$ 2,529,886	\$ 2,606,411	\$ 2,685,279	\$ 2,766,563
Rate-Funded Capital Expenses	-	-	-	-	-
Total Use of Funds	\$ 5,232,090	\$ 5,498,368	\$ 5,933,587	\$ 7,678,813	\$ 7,239,931
Surplus (Deficiency) before Rate Increase	\$ 701,724	\$ 436,773	\$ 25,153	\$ (1,522,873)	\$ (1,065,673)
Additional Revenue from Rate Increases	-	177,572	361,448	567,782	768,510
Surplus (Deficiency) after Rate Increase	\$ 701,724	\$ 614,344	\$ 386,601	\$ (955,090)	\$ (297,163)
Projected Annual Rate Increase	0.00%	3.00%	3.00%	3.00%	3.00%
Cumulative Rate Increases	0.00%	3.00%	6.09%	9.27%	12.55%
Net Revenue Requirement	\$ 5,201,276	\$ 5,482,280	\$ 5,909,953	\$ 7,646,031	\$ 7,188,831

Figure 2 summarizes the sources of funding that will be used to fund the District's Capital Improvement Program. As this figure shows, the District will be able to fully fund the planned capital expenditures with funds held in reserves.

Figure 2. Capital Funding Summary

Capital Funding Summary	Budget	Projected			
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sources of Capital Funding:					
Capital Rehabilitation & Replacement Reserve	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020
Rate Revenue	-	-	-	-	-
Total: Sources of Capital Funding	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020
Planned Capital Expenditures:					
Federal Blvd Sewer Rehab (Design)	\$ 82,400	\$ -	\$ -	\$ -	\$ -
Federal Blvd Sewer Rehab (Construction)	\$ 618,000	\$ 1,060,900	\$ -	\$ -	\$ -
Sanitary Sewer Master Plan Update	\$ 103,000	\$ -	\$ -	\$ -	\$ -
Sewer Main Maintenance Project (Construction)	\$ 257,500	\$ 265,225	\$ 273,182	\$ 281,377	\$ 289,819
Sewer Main Rehabilitation (Design)	\$ 20,600	\$ 106,090	\$ 109,273	\$ 112,551	\$ 115,927
Sewer Main Rehabilitation Project (Construction)	\$ 412,000	\$ -	\$ 1,092,727	\$ 1,125,509	\$ 1,159,274
Total: Planned Capital Expenditures	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020

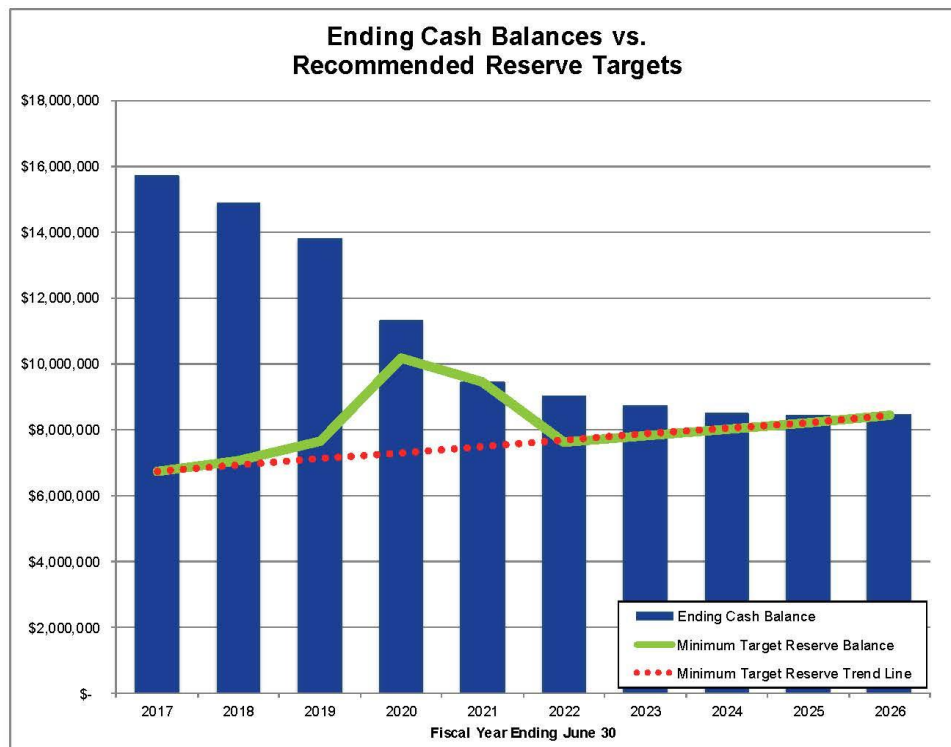
Figure 3 summarizes the projected reserve fund balances and reserve targets through the end of FY 2020/21. The impact of the reserve funded capital projects can be seen, drawing down the Capital Rehabilitation & Replacement Reserve more than 55 percent by FY 2020/21. Figure 3 also shows the volatility in the Rate Stabilization Reserve, as Metro costs vary significantly over the next five years. At the end of the five-year period, the balance in the reserve is significantly below the recommended FY 2020/21 target; however, in total the District would meet the overall reserve target.

Figure 3. Summary of Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected			
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Operating Reserve					
Ending Balance	\$ 2,616,000	\$ 2,749,000	\$ 2,967,000	\$ 3,839,000	\$ 3,620,000
Recommended Minimum Target	2,616,000	2,749,000	2,967,000	3,839,000	3,620,000
Capital Rehabilitation & Replacement Reserve					
Ending Balance	\$ 10,306,311	\$ 9,163,413	\$ 7,688,232	\$ 6,168,795	\$ 4,603,775
Recommended Minimum Target	1,357,300	1,358,300	1,360,400	1,363,800	1,368,500
Rate Stabilization Reserve					
Ending Balance	\$ 2,776,455	\$ 2,968,482	\$ 3,137,083	\$ 1,309,993	\$ 1,231,830
Recommended Minimum Target	2,776,455	2,968,482	3,327,176	4,993,534	4,473,368
Total Ending Balance	\$ 15,698,766	\$ 14,880,895	\$ 13,792,315	\$ 11,317,787	\$ 9,455,605
Total Recommended Minimum Target	\$ 6,749,755	\$ 7,075,782	\$ 7,654,576	\$ 10,196,334	\$ 9,461,868

Figure 4 shows the ten-year projection of reserve fund balances compared to target reserves for the District. This figure demonstrates that existing reserve funds will be spent down over the next 5 years on capital improvement projects, and by the end of the ten-year period, reserves will be very close to the minimum reserve targets. Because of the volatility in the Rate Stabilization reserve, the Minimum Target Reserve Trend Line has been included to show a smoothed target which follows the more general trend and acts as a better long term target.

Figure 4. Ten Year Reserve Fund Projection



Attachment B

Figure 5 provides of a comparison of current and proposed rates per EDU as the recommended rate increases are applied to the existing rate structure.

Figure 5. Proposed Annual Sewer Use Charge per EDU

Annual Sewer Use Charges	Current Rates (1)	Proposed Sewer Rates				
		FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
		0.00%	3.00%	3.00%	3.00%	3.00%
Rate Per EDU (240 gpd)	\$553.17	\$553.17	\$569.77	\$586.86	\$604.46	\$622.60

1. Ordinance No.26.pdf

CONSULTANT RECOMMENDATION

NBS recommends Lemon Grove Sanitation District take the following actions:

- **Accept this Study Report:** NBS recommends the Board of Directors formally accept this report and adopt its recommendations, and proceed with the next steps to implement the proposed rates. This will provide documentation of the rate study analyses and the basis for analyzing potential changes to future rates.
- **Implement Levels of Rate Increases and Proposed Rates:** The financial plan presented in this technical memorandum demonstrates that the District will need to begin increasing rates in the next fiscal year to meet its annual revenue requirements and maintain healthy reserves. Assuming the District completes a successful Proposition 218 process, NBS recommends that the Board of Directors approve the annual rate increases identified in this technical memorandum, as shown in Figure 5.
- **Adopt Reserve Fund Targets:** NBS recommends the Board of Directors adopt the recommended reserve fund targets described in this memorandum for the Sanitation District. The District should periodically evaluate reserve fund levels and attempt to maintain the reserve levels recommended for the Operating, Capital Rehabilitation and Replacement, and Rate Stabilization Reserves.
- **Evaluate EDU Assignments and Charges:** NBS recommends that the District review the existing EDU assignments to each parcel and the charge per EDU as part of a future rate analysis.

Note: The attached Technical Appendix provides more detailed information on the analysis of the revenue requirements that have been summarized in this report.

NBS' PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this memorandum and the opinions and recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters that may occur in the future. This information and assumptions, including Lemon Grove Sanitation District's budgets, capital improvement costs, and information from District staff were provided by sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

Attachment B

TECHNICAL APPENDIX



CITY OF LEMON GROVE
SEWER RATE STUDY
Financial Plan and Reserve Projections

Financial Plan & Reserve Summary

TABLE 1
FINANCIAL PLAN AND SUMMARY OF REVENUE REQUIREMENTS

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected								
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Sources of Sewer Funds										
Rate Revenue Under Current Rates (1, 2)	\$ 5,903,000	\$ 5,919,053	\$ 5,935,106	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,187,371	\$ 6,236,870
Other Operating Revenue	3,000	3,008	3,016	3,112	3,112	3,112	3,112	3,112	3,145	3,170
Interest Earnings (in Operating Reserve) (3)	27,814	13,080	20,618	29,670	47,988	54,300	53,095	62,500	64,400	66,340
Total Sources of Funds	\$ 5,933,814	\$ 5,935,141	\$ 5,958,740	\$ 6,155,940	\$ 6,174,258	\$ 6,180,570	\$ 6,179,365	\$ 6,188,770	\$ 6,254,916	\$ 6,306,380
Uses of Sewer Funds										
Operating Expenses (4):										
Salaries	\$ 795,000	\$ 818,850	\$ 843,416	\$ 868,718	\$ 894,780	\$ 921,623	\$ 949,272	\$ 977,750	\$ 1,007,082	\$ 1,037,295
Benefits	246,895	255,651	264,723	274,124	283,865	293,959	304,419	315,259	326,492	338,133
Other Operating Expenses	3,325,195	3,532,918	3,907,770	5,590,762	5,087,721	3,849,432	3,964,106	4,082,213	4,203,854	4,329,136
Transfers	865,000	890,950	917,679	945,209	973,565	1,002,772	1,032,855	1,063,841	1,095,756	1,128,629
Subtotal: Operating Expenses	\$ 5,232,090	\$ 5,498,368	\$ 5,933,587	\$ 7,678,813	\$ 7,239,931	\$ 6,067,787	\$ 6,250,653	\$ 6,439,062	\$ 6,633,184	\$ 6,833,192
Other Expenditures:										
Prepayment PERS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Existing Debt Service	-	-	-	-	-	-	-	-	-	-
Future Debt Service	-	-	-	-	-	-	-	-	-	-
Rate-Funded Capital Expenses	-	-	-	-	-	-	-	752,758	1,242,285	1,585,554
Subtotal: Other Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 752,758	\$ 1,242,285	\$ 1,585,554
Total Uses of Sewer Funds	\$ 5,232,090	\$ 5,498,368	\$ 5,933,587	\$ 7,678,813	\$ 7,239,931	\$ 6,067,787	\$ 6,250,653	\$ 7,191,820	\$ 7,875,469	\$ 8,418,746
plus: Revenue from Rate Increases	-	177,572	361,448	567,782	768,510	1,044,177	1,330,871	1,629,032	1,959,455	2,303,610
Annual Surplus/(Deficit)	\$ 701,724	\$ 614,344	\$ 386,601	\$ (955,090)	\$ (297,163)	\$ 1,156,961	\$ 1,259,583	\$ 625,982	\$ 338,901	\$ 191,244
Net Revenue Req. (Total Uses less Non-Rate Revenue)	\$ 5,201,276	\$ 5,482,280	\$ 5,909,953	\$ 7,646,031	\$ 7,188,831	\$ 6,010,375	\$ 6,194,446	\$ 7,126,208	\$ 7,807,925	\$ 8,349,236
Total Rate Revenue After Rate Increases	\$ 5,903,000	\$ 6,096,625	\$ 6,296,554	\$ 6,690,941	\$ 6,891,669	\$ 7,167,336	\$ 7,454,029	\$ 7,752,190	\$ 8,146,826	\$ 8,540,481
Projected Annual Rate Revenue Increase	0.00%	3.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Cumulative Increase from Annual Revenue Increases	0.00%	3.00%	6.09%	9.27%	12.55%	17.05%	21.74%	26.60%	31.67%	36.94%
Debt Coverage After Rate Increase	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1. Revenues for FY 2016/17 are from the District's Budget & updated via staff email. Source files: Sanitation Budgets.xlsx, budgetEmail.4.13.16.pdf.
2. Customer growth rates for each year per City of Lemon Grove estimates, and are shown in Table 7 of Exhibit 1.
3. Interest earnings are per the City's Summary Budget in FY 2016/17, and calculated in the Financial Plan for all future years.
4. Revenues for FY 2016/17 are from the District's Budget & updated via staff email. Source files: Sanitation Budgets.xlsx, budgetEmail.4.13.16.pdf.
Inflationary factors are applied to these expenses to project costs in 2016/17 and beyond.

Attachment B

**CITY OF LEMON GROVE
SEWER RATE STUDY
Financial Plan and Reserve Projections**

Financial Plan & Reserve Summary

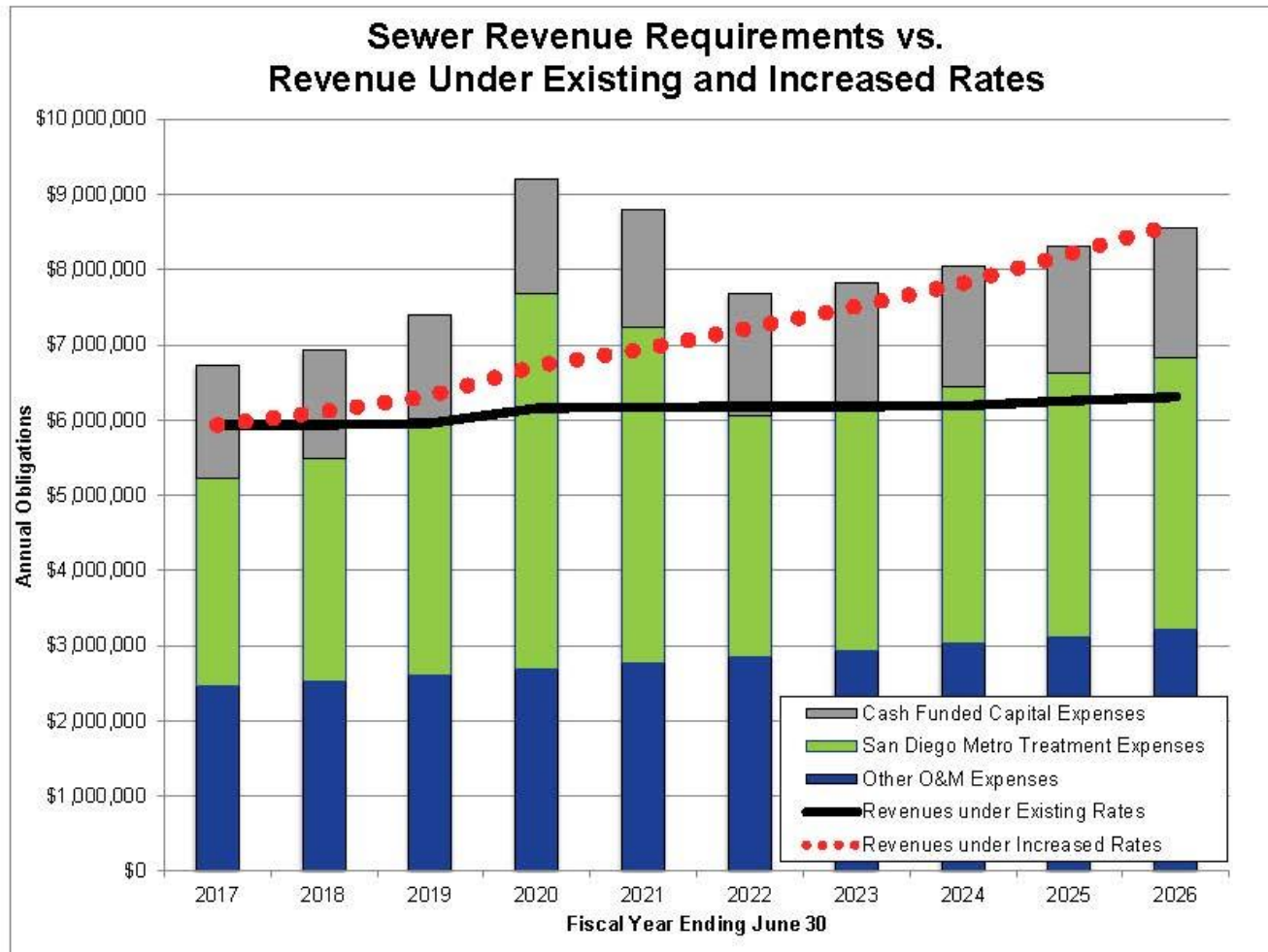
**TABLE 2
RESERVE FUND SUMMARY**

SUMMARY OF CASH ACTIVITY	Budget	Projected								
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Total Beginning Cash	\$ 16,507,541									
Operating Reserve										
Beginning Reserve Balance (1)	\$ 11,125,622	\$ 2,616,000	\$ 2,749,000	\$ 2,967,000	\$ 3,839,000	\$ 3,620,000	\$ 3,034,000	\$ 3,125,000	\$ 3,220,000	\$ 3,317,000
Plus: Net Cash Flow (After Rate Increases)	701,724	614,344	386,601	(955,090)	(297,163)	1,156,961	1,259,583	625,982	338,901	191,244
Net: Transfer From / (To) Rate Stabilization Reserve	(465,855)	(192,027)	(168,601)	1,827,090	78,163	(1,742,961)	(339,181)	(99,419)	(102,402)	(91,244)
Less: Transfer Out to Capital Replacement Reserve	(8,745,491)	(289,317)	-	-	-	-	(829,402)	(431,563)	(139,500)	-
Adjustment to 2015/16 Year End Actuals	-	-	-	-	-	-	-	-	-	-
Ending Operating Reserve Balance	\$ 2,616,000	\$ 2,749,000	\$ 2,967,000	\$ 3,839,000	\$ 3,620,000	\$ 3,034,000	\$ 3,125,000	\$ 3,220,000	\$ 3,317,000	\$ 3,417,000
Target Ending Balance (50% of O&M) (2)	\$ 2,616,000	\$ 2,749,000	\$ 2,967,000	\$ 3,839,000	\$ 3,620,000	\$ 3,034,000	\$ 3,125,000	\$ 3,220,000	\$ 3,317,000	\$ 3,417,000
Capital Rehabilitation & Replacement Reserve										
Beginning Reserve Balance (3)	\$ 3,054,319	\$ 10,306,311	\$ 9,163,413	\$ 7,688,232	\$ 6,168,795	\$ 4,603,775	\$ 2,991,803	\$ 2,250,041	\$ 1,816,063	\$ 1,531,000
Plus: Grant Proceeds	-	-	-	-	-	-	-	-	-	-
Plus: Transfer of Operating Reserve Surpluses	8,745,491	289,317	-	-	-	-	829,402	431,563	139,500	-
Less: Use of Reserves for Capital Projects	(1,493,500)	(1,432,215)	(1,475,181)	(1,519,437)	(1,565,020)	(1,611,972)	(1,571,164)	(865,541)	(424,563)	(131,300)
Adjustment to 2015/16 Year End Actuals	-	-	-	-	-	-	-	-	-	-
Ending Capital Rehab & Replacement Reserve Balance	\$ 10,306,311	\$ 9,163,413	\$ 7,688,232	\$ 6,168,795	\$ 4,603,775	\$ 2,991,803	\$ 2,250,041	\$ 1,816,063	\$ 1,531,000	\$ 1,399,700
Target Ending Balance (3% net assets) (4)	\$ 1,357,300	\$ 1,358,300	\$ 1,360,400	\$ 1,363,800	\$ 1,368,500	\$ 1,374,300	\$ 1,378,800	\$ 1,384,500	\$ 1,391,500	\$ 1,399,700
Rate Stabilization Reserve										
Beginning Reserve Balance (3)	\$ 2,310,600	\$ 2,776,455	\$ 2,968,482	\$ 3,137,083	\$ 1,309,993	\$ 1,231,830	\$ 2,974,791	\$ 3,313,972	\$ 3,413,392	\$ 3,515,793
Net: Transfer From / (To) Operating Reserve	465,855	192,027	168,601	(1,827,090)	(78,163)	1,742,961	339,181	99,419	102,402	91,244
Ending Rate Stabilization Reserve Balance	\$ 2,776,455	\$ 2,968,482	\$ 3,137,083	\$ 1,309,993	\$ 1,231,830	\$ 2,974,791	\$ 3,313,972	\$ 3,413,392	\$ 3,515,793	\$ 3,607,038
Target Ending Balance (1 year Metro Costs) (5)	\$ 2,776,455	\$ 2,968,482	\$ 3,327,176	\$ 4,993,534	\$ 4,473,368	\$ 3,217,449	\$ 3,313,972	\$ 3,413,392	\$ 3,515,793	\$ 3,621,267
Ending Balance - Excl. Restricted Reserves	\$ 15,698,766	\$ 14,880,895	\$ 13,792,315	\$ 11,317,787	\$ 9,455,605	\$ 9,000,594	\$ 8,689,013	\$ 8,449,454	\$ 8,363,793	\$ 8,423,738
Min. Target Ending Balance - Excl. Restricted Reserves	\$ 6,749,755	\$ 7,075,782	\$ 7,654,576	\$ 10,196,334	\$ 9,461,868	\$ 7,625,749	\$ 7,817,772	\$ 8,017,892	\$ 8,224,293	\$ 8,437,967
Ending Surplus/(Deficit) Compared to Reserve Targets	\$ 8,949,011	\$ 7,805,113	\$ 6,137,739	\$ 1,121,453	\$ (6,263)	\$ 1,374,845	\$ 871,241	\$ 431,563	\$ 139,500	\$ (14,229)
Restricted Reserves:										
Connection Fee Reserve										
Beginning Reserve Balance	\$ 17,000	\$ 34,043	\$ 51,213	\$ 68,597	\$ 86,283	\$ 104,361	\$ 122,927	\$ 142,078	\$ 161,920	\$ 182,158
Plus: Interest Earnings	43	170	384	686	1,079	1,565	2,151	2,842	3,238	3,643
Plus: Connection Fee Revenue	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Less: Use of Reserves for Capital Projects	-	-	-	-	-	-	-	-	-	-
Ending Connection Fee Fund Balance	\$ 34,043	\$ 51,213	\$ 68,597	\$ 86,283	\$ 104,361	\$ 122,927	\$ 142,078	\$ 161,920	\$ 182,158	\$ 202,801
Annual Interest Earnings Rate (6)	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%

- Beginning cash balance is from the City's General Ledger Balance Sheet Cash for 15-00-00-1000 for 2016/17.
- The operating reserve target ending balance recommend to be 180 days or 50% of O&M Expenses.
- Beginning cash balance is from the City's General Ledger Balance Sheet Cash for 16-00-00-1000 for FY 2015/16, 2016/17. Source files: *Detailed Trial Balance Fund 16 2016.pdf* & *Summary Trial Balance Fund 16*
Cash is split between Capital Improvement Reserve & Rate Stabilization Reserve.
- The 3% of Net Asset calculation includes Lemon Grove's FY 2016/17 CIP cost allocation of 1.31% of San Diego Metro Net Capital Assets, and Lemon Grove owned assets.
- The Rate Stabilization Reserve target ending balance remains equal one year of Metro costs matching the previous study from March 2011 (page 2).
- Historical interest earning rates were referenced on the California Treasurer's Office website for funds invested in LAIF.
Future years earnings were conservatively estimated through 2022 and phased into the historical 10 year average interest earnings rate.

CITY OF LEMON GROVE
SEWER RATE STUDY
Rate Adjustment Charts and Report Tables

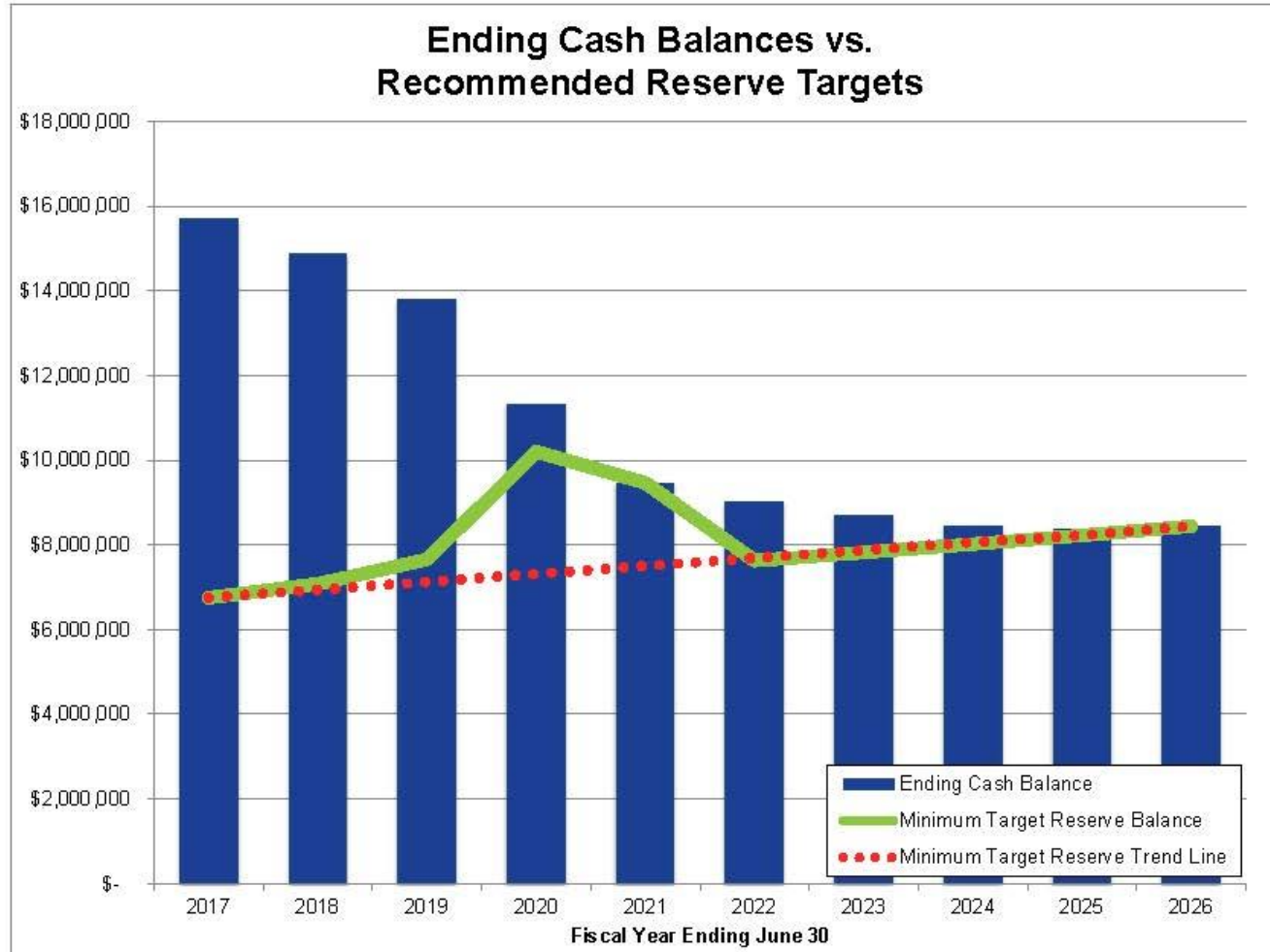
CHART 1



Attachment B

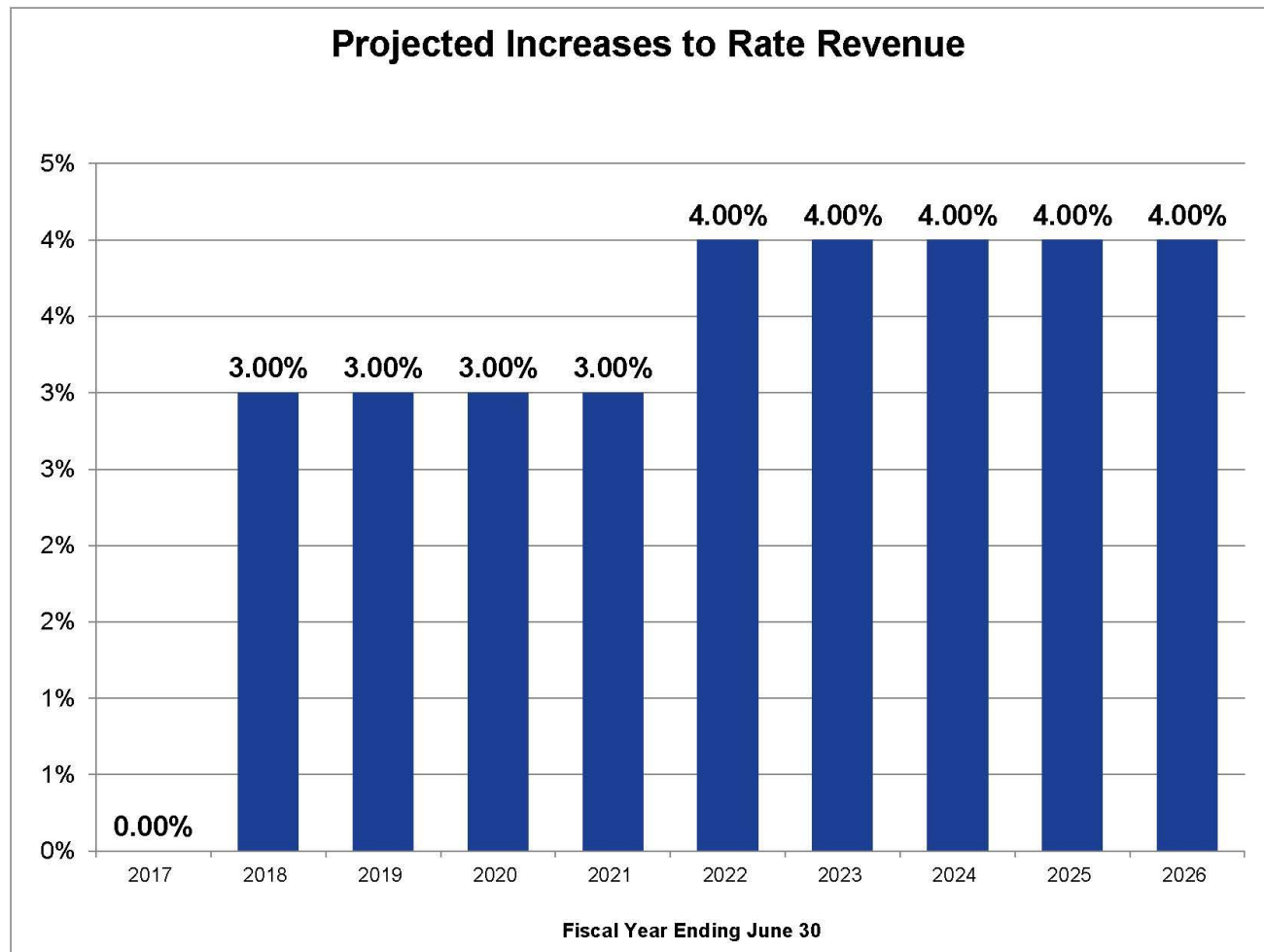
CITY OF LEMON GROVE
SEWER RATE STUDY
Rate Adjustment Charts and Report Tables

CHART 2



CITY OF LEMON GROVE
SEWER RATE STUDY
Rate Adjustment Charts and Report Tables

CHART 3



Attachment B

**CITY OF LEMON GROVE
SEWER RATE STUDY
Operating Revenue and Expenses**

EXHIBIT 1

**TABLE 3
REVENUE FORECAST (1)**

SOURCES OF REVENUE	Basis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
R11 Miscellaneous Revenue											
4370 Other Revenue (2)	1	\$ 3,000	\$ 3,008	\$ 3,016	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,145	\$ 3,170
R14 Interest & Investment Income											
4420 Interest (3)	See FP	\$ 21,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4430 Interest - Property Tax	See FP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R16 Grant Revenue											
4430 Cost Recovery	1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R17 All Other Revenue											
4595 Sewer Capacity Fee	9	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
4600 Sewer Service Fee	1	\$ 5,853,000	\$ 5,868,917	\$ 5,884,834	\$ 6,071,294	\$ 6,071,294	\$ 6,071,294	\$ 6,071,294	\$ 6,071,294	\$ 6,134,963	\$ 6,184,042
4605 Sewer Service - LGSD La Mesa SD	1	\$ 50,000	\$ 50,136	\$ 50,272	\$ 51,865	\$ 51,865	\$ 51,865	\$ 51,865	\$ 51,865	\$ 52,409	\$ 52,828
TOTAL: REVENUE		\$ 5,944,800	\$ 5,939,061	\$ 5,955,123	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,207,516	\$ 6,257,040

TABLE 4

REVENUE SUMMARY	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Sewer Operations - 15:										
Sewer Rate Revenue	\$ 5,903,000	\$ 5,919,053	\$ 5,935,106	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,123,159	\$ 6,187,371	\$ 6,236,870
Other Operating Revenue	\$ 3,000	\$ 3,008	\$ 3,016	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,112	\$ 3,145	\$ 3,170
Interest Earnings	\$ 21,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Capacity Fee	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
Subtotal: Sewer Operations Revenue	\$ 5,944,800	\$ 5,939,061	\$ 5,955,123	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,143,270	\$ 6,207,516	\$ 6,257,040

Attachment B

**CITY OF LEMON GROVE
SEWER RATE STUDY
Operating Revenue and Expenses**

EXHIBIT 1

**TABLE 5
OPERATING EXPENSE FORECAST (4):**

Sewer Fund Operations	Basis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
E05 Salaries											
5000 Salaries	3	\$ 765,800	\$ 788,774	\$ 812,437	\$ 836,810	\$ 861,915	\$ 887,772	\$ 914,405	\$ 941,837	\$ 970,093	\$ 999,195
5040 Overtime	3	\$ 14,200	\$ 14,626	\$ 15,065	\$ 15,517	\$ 15,982	\$ 16,462	\$ 16,956	\$ 17,464	\$ 17,988	\$ 18,528
5050 Extra Help	3	\$ 15,000	\$ 15,450	\$ 15,914	\$ 16,391	\$ 16,883	\$ 17,389	\$ 17,911	\$ 18,448	\$ 19,002	\$ 19,572
Subtotal: E05 Salaries		\$ 795,000	\$ 818,850	\$ 843,416	\$ 868,718	\$ 894,780	\$ 921,623	\$ 949,272	\$ 977,750	\$ 1,007,082	\$ 1,037,295
E10 Benefits											
5060 Health Benefits	4	\$ 98,700	\$ 102,648	\$ 106,754	\$ 111,024	\$ 115,465	\$ 120,084	\$ 124,887	\$ 129,882	\$ 135,078	\$ 140,481
5070 Health Benefits - Retirees	4	\$ 15,500	\$ 16,120	\$ 16,765	\$ 17,435	\$ 18,133	\$ 18,858	\$ 19,612	\$ 20,397	\$ 21,213	\$ 22,061
5080 Deferred Comp	3	\$ 1,700	\$ 1,751	\$ 1,804	\$ 1,858	\$ 1,913	\$ 1,971	\$ 2,030	\$ 2,091	\$ 2,154	\$ 2,218
590 Employee Assistance Program	4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5150 Worker's Comp Insurance	3	\$ 30,000	\$ 30,900	\$ 31,827	\$ 32,782	\$ 33,765	\$ 34,778	\$ 35,822	\$ 36,896	\$ 38,003	\$ 39,143
5160 Medicare Insurance	4	\$ 13,500	\$ 14,040	\$ 14,602	\$ 15,186	\$ 15,793	\$ 16,425	\$ 17,082	\$ 17,765	\$ 18,476	\$ 19,215
5170 Life Insurance	4	\$ 1,200	\$ 1,248	\$ 1,298	\$ 1,350	\$ 1,404	\$ 1,460	\$ 1,518	\$ 1,579	\$ 1,642	\$ 1,708
5180 Long Term Disability	4	\$ 6,000	\$ 6,240	\$ 6,490	\$ 6,749	\$ 7,019	\$ 7,300	\$ 7,592	\$ 7,896	\$ 8,211	\$ 8,540
5190 Retirement	5	\$ 80,295	\$ 82,704	\$ 85,185	\$ 87,741	\$ 90,373	\$ 93,084	\$ 95,876	\$ 98,753	\$ 101,715	\$ 104,767
5200 Unemployment	4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal: E10 Benefits		\$ 246,895	\$ 255,651	\$ 264,723	\$ 274,124	\$ 283,865	\$ 293,959	\$ 304,419	\$ 315,259	\$ 326,492	\$ 338,133
E15 Benefits - Retirement											
6141 PERS UAL Payments	3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6501 Transfer To PERS Unfunded Liab	3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal: E05 Benefits - Retirement		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal: Sewer Fund 15 - Sewer Operations		\$ 1,041,895	\$ 1,074,501	\$ 1,108,139	\$ 1,142,842	\$ 1,178,645	\$ 1,215,582	\$ 1,253,691	\$ 1,293,009	\$ 1,333,574	\$ 1,375,428

Attachment B

**CITY OF LEMON GROVE
SEWER RATE STUDY
Operating Revenue and Expenses**

EXHIBIT 1

**TABLE 6
OPERATING EXPENSE FORECAST (4):**

Sewer Fund Operations	Basis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
E40 Other Operating Expenses											
5410 Claims Paid	2	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855	\$ 22,510	\$ 23,185	\$ 23,881	\$ 24,597	\$ 25,335	\$ 26,095
5440 Computer Maintenance	2	\$ 46,600	\$ 47,998	\$ 49,438	\$ 50,921	\$ 52,449	\$ 54,022	\$ 55,643	\$ 57,312	\$ 59,031	\$ 60,802
5470 Contract Services	2	\$ 55,000	\$ 56,650	\$ 58,350	\$ 60,100	\$ 61,903	\$ 63,760	\$ 65,673	\$ 67,643	\$ 69,672	\$ 71,763
5490 Copier Service	2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5620 Emergency Callout & Repair	2	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628	\$ 5,796	\$ 5,970	\$ 6,149	\$ 6,334	\$ 6,524
5640 Equipment	2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5650 Equipment Rental	2	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628	\$ 5,796	\$ 5,970	\$ 6,149	\$ 6,334	\$ 6,524
5655 Estimated Claims Payable	2	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855	\$ 22,510	\$ 23,185	\$ 23,881	\$ 24,597	\$ 25,335	\$ 26,095
5700 Fuel	7	\$ 15,100	\$ 15,704	\$ 16,332	\$ 16,985	\$ 17,665	\$ 18,371	\$ 19,106	\$ 19,871	\$ 20,665	\$ 21,492
5710 General Expenditure	2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5750 Industrial Enforcement	2	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299	\$ 12,668	\$ 13,048
5760 Insurance - Liability	2	\$ 48,800	\$ 50,264	\$ 51,772	\$ 53,325	\$ 54,925	\$ 56,573	\$ 58,270	\$ 60,018	\$ 61,818	\$ 63,673
5770 Insurance - Property	2	\$ 7,700	\$ 7,931	\$ 8,169	\$ 8,414	\$ 8,666	\$ 8,926	\$ 9,194	\$ 9,470	\$ 9,754	\$ 10,047
5930 Line Cleaning	2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5950 Litigation Services	2	\$ 60,000	\$ 61,800	\$ 63,654	\$ 65,564	\$ 67,531	\$ 69,556	\$ 71,643	\$ 73,792	\$ 76,006	\$ 78,286
5990 Medical Examinations	2	\$ 400	\$ 412	\$ 424	\$ 437	\$ 450	\$ 464	\$ 478	\$ 492	\$ 507	\$ 522
6020 Membership & Dues	2	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319	\$ 2,388	\$ 2,460	\$ 2,534	\$ 2,610
6030 Metro Annual Capacity & Treatment (5)	10	\$ 2,776,455	\$ 2,968,482	\$ 3,327,176	\$ 4,993,534	\$ 4,473,368	\$ 3,217,449	\$ 3,313,972	\$ 3,413,392	\$ 3,515,793	\$ 3,621,267
6040 Mileage	2	\$ 9,000	\$ 9,270	\$ 9,548	\$ 9,835	\$ 10,130	\$ 10,433	\$ 10,746	\$ 11,069	\$ 11,401	\$ 11,743
6060 Sewage Transportation	11	\$ 66,040	\$ 67,097	\$ 68,170	\$ 69,261	\$ 70,369	\$ 71,495	\$ 72,639	\$ 73,801	\$ 74,982	\$ 76,182
6090 Office Supplies	2	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319	\$ 2,388	\$ 2,460	\$ 2,534	\$ 2,610
6140 Personnel Recruitment	2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6150 Professional Services	2	\$ 72,500	\$ 74,675	\$ 76,915	\$ 79,223	\$ 81,599	\$ 84,047	\$ 86,569	\$ 89,166	\$ 91,841	\$ 94,596
6160 Protective Clothing	2	\$ 4,000	\$ 4,120	\$ 4,244	\$ 4,371	\$ 4,502	\$ 4,637	\$ 4,776	\$ 4,919	\$ 5,067	\$ 5,219
6170 Repairs & Maintenance	2	\$ 5,400	\$ 5,562	\$ 5,729	\$ 5,901	\$ 6,078	\$ 6,260	\$ 6,448	\$ 6,641	\$ 6,841	\$ 7,046
6180 Repairs & Maintenance - Equipment	2	\$ 25,000	\$ 25,750	\$ 26,523	\$ 27,318	\$ 28,138	\$ 28,982	\$ 29,851	\$ 30,747	\$ 31,669	\$ 32,619
6190 Repairs & Maintenance - Vehicles	2	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299	\$ 12,668	\$ 13,048
6200 Restoration Services	2	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299	\$ 12,668	\$ 13,048
6210 Street Sweeping	2	\$ 18,000	\$ 18,540	\$ 19,096	\$ 19,669	\$ 20,259	\$ 20,867	\$ 21,493	\$ 22,138	\$ 22,802	\$ 23,486
6220 Tools & Supplies	2	\$ 11,000	\$ 11,330	\$ 11,670	\$ 12,020	\$ 12,381	\$ 12,752	\$ 13,135	\$ 13,529	\$ 13,934	\$ 14,353
6230 Traffic Safety Equipment	2	\$ 500	\$ 515	\$ 530	\$ 546	\$ 563	\$ 580	\$ 597	\$ 615	\$ 633	\$ 652
6240 Training	2	\$ 10,000	\$ 10,300	\$ 10,609	\$ 10,927	\$ 11,255	\$ 11,593	\$ 11,941	\$ 12,299	\$ 12,668	\$ 13,048
6250 Travel & Meetings	2	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319	\$ 2,388	\$ 2,460	\$ 2,534	\$ 2,610
6260 Utilities - Gas & Electric	7	\$ 700	\$ 728	\$ 757	\$ 787	\$ 819	\$ 852	\$ 886	\$ 921	\$ 958	\$ 996
6270 Utilities - Telephone	2	\$ 4,500	\$ 4,635	\$ 4,774	\$ 4,917	\$ 5,065	\$ 5,217	\$ 5,373	\$ 5,534	\$ 5,700	\$ 5,871
6280 Utilities - Water	2	\$ 2,500	\$ 2,575	\$ 2,652	\$ 2,732	\$ 2,814	\$ 2,898	\$ 2,985	\$ 3,075	\$ 3,167	\$ 3,262
Subtotal: E15 Other Operating Expenses		\$ 3,325,195	\$ 3,532,918	\$ 3,907,770	\$ 5,590,762	\$ 5,087,721	\$ 3,849,432	\$ 3,964,106	\$ 4,082,213	\$ 4,203,854	\$ 4,329,136
E65 Transfers											
6900 Interfund Transfers - Expenditures (6)	2	\$ 865,000	\$ 890,950	\$ 917,679	\$ 945,209	\$ 973,565	\$ 1,002,772	\$ 1,032,855	\$ 1,063,841	\$ 1,095,756	\$ 1,128,629
Subtotal: E65 Transfers		\$ 865,000	\$ 890,950	\$ 917,679	\$ 945,209	\$ 973,565	\$ 1,002,772	\$ 1,032,855	\$ 1,063,841	\$ 1,095,756	\$ 1,128,629
Subtotal: Sewer Fund 15 - Sewer Operations		\$ 4,190,195	\$ 4,423,868	\$ 4,825,448	\$ 6,535,971	\$ 6,061,286	\$ 4,852,204	\$ 4,996,962	\$ 5,146,053	\$ 5,299,610	\$ 5,457,765
Total: Sewer Fund 15 - Sewer Operations		\$ 5,232,090	\$ 5,498,368	\$ 5,933,587	\$ 7,678,813	\$ 7,239,931	\$ 6,067,787	\$ 6,250,653	\$ 6,439,062	\$ 6,633,184	\$ 6,833,192

**CITY OF LEMON GROVE
SEWER RATE STUDY
Operating Revenue and Expenses**

EXHIBIT 1

**TABLE 7
FORECASTING ASSUMPTIONS:**

ECONOMIC VARIABLES	Basis	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Customer Growth (7)	1	--	0.27%	0.27%	3.17%	0.00%	0.00%	0.00%	0.00%	1.05%	0.80%
General Cost Inflation	2	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Labor Cost Inflation (8)	3	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Health Benefits Inflation (8)	4	--	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Retirement Benefits Inflation (8)	5	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Chemicals (8)	6	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Gas (8)	7	--	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Electricity (9)	8	--	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%
No Escalation	9	--	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
San Diego Metro (5)	10	20.16%	6.92%	12.08%	50.08%	-10.42%	-28.08%	3.00%	3.00%	3.00%	3.00%
Transportation (10)	11	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%

1. Revenues for FY 2016/17 are from the District's Budget & updated via staff email. Source files: *Sanitation Budgets.xlsx*, *budgetEmail.4.13.16.pdf*.
2. In FY 2015/16, there was a one time settlement from Padre Dam. Source file: *budgetEmail.4.13.16.pdf*.
3. Interest earnings are per the City's Revenue Summary for FY 2016/17, and are calculated in the Financial Plan for all future years.
4. Expenses for FY 2016/17 are from the District's Budget & updated via staff email. Source files: *Sanitation Budgets.xlsx*, *budgetEmail.4.13.16.pdf*.
Inflationary factors are applied to these expenses to project costs in FY 2017/18 and beyond.
5. San Diego Metro cost for FY 2016/17 through 2021/22 from October JPA agenda item Pure Water Program Update, high range cost for each year (page 44). Then 3% annually.
6. Expected Interfund Transfers confirmed via email. Source files: *Sanitation Budgets.xlsx*, *budgetEmail.4.13.16.pdf*.
7. Client provided source file: *Lemon Grove Sewage Flow Projections.pdf*, and then actual calculations of raw data was completed in source file: *Lemon Grove Growth Projections.xlsx*.
8. NBS has assumed conservative inflation factors for labor, health benefits, retirement benefits, chemicals and energy costs (January 26, 2016).
9. The source of the electricity inflation factor is the projected nominal escalation rate for 2008-2020, for Southern California Edison customers as referenced in the following study: The Future of Electricity Prices in California: Understanding Market Drivers and Forecasting Prices to 2040 by Jonathan Cook, PH.D., Energy Efficiency Center, UC Davis.
10. The most current base transportation rate adjusted by the average inflation rate for San Diego per United States Department of Labor, Bureau of Labor Statistics Data.
Client provided source file: *City of San Diego-Transportation Rate Feb 2016.pdf*, pg. 2.

Attachment B

CITY OF LEMON GROVE
SEWER RATE STUDY
Capital Improvement Plan Expenditures

EXHIBIT 2

TABLE 8
CAPITAL FUNDING SUMMARY

CAPITAL FUNDING FORECAST	Budget	Projected								
Funding Sources:	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of Capacity Fee Reserves	-	-	-	-	-	-	-	-	-	-
Use of SRF Loan Funding	-	-	-	-	-	-	-	-	-	-
Use of New Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Use of Capital Improvement Reserve	1,493,500	1,432,215	1,475,181	1,519,437	1,565,020	1,611,972	1,571,164	865,541	424,563	131,300
Rate Revenue	-	-	-	-	-	-	-	752,758	1,242,285	1,585,554
Total Sources of Capital Funds	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020	\$ 1,611,972	\$ 1,571,164	\$ 1,618,299	\$ 1,666,848	\$ 1,716,853
Uses of Capital Funds:										
Total Project Costs	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020	\$ 1,611,972	\$ 1,571,164	\$ 1,618,299	\$ 1,666,848	\$ 1,716,853
Capital Funding Surplus (Deficiency)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

TABLE 9
Capital Improvement Program Costs (in Current-Year Dollars) (1):

Project Description	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Federal Blvd Sewer Rehab (Design)	\$ 80,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Blvd Sewer Rehab (Construction)	\$ 600,000	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sanitary Sewer Master Plan Update (including any GP update)	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Main Maintenance Project (Design)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Main Maintenance Project (Construction)	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,001	\$ -	\$ -	\$ -	\$ -
Sewer Main Rehabilitation (Design)	\$ 20,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -
Sewer Main Rehabilitation Project (Construction)	\$ 400,000	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -
Estimated Future CIP Expenditures (2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,277,500	\$ 1,277,500	\$ 1,277,500	\$ 1,277,500
Total: Capital Improvement Program Costs (Current-Year Dollars)	\$ 1,450,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,001	\$ 1,277,500	\$ 1,277,500	\$ 1,277,500	\$ 1,277,500

TABLE 10
Capital Improvement Program Costs (in Future-Year Dollars):

Project Description	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Federal Blvd Sewer Rehab (Design)	\$ 82,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Blvd Sewer Rehab (Construction)	\$ 618,000	\$ 1,060,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sanitary Sewer Master Plan Update (including any GP update)	\$ 103,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Main Maintenance Project (Design)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Main Maintenance Project (Construction)	\$ 257,500	\$ 265,225	\$ 273,182	\$ 281,377	\$ 289,819	\$ 298,514	\$ -	\$ -	\$ -	\$ -
Sewer Main Rehabilitation (Design)	\$ 20,600	\$ 106,090	\$ 109,273	\$ 112,551	\$ 115,927	\$ 119,405	\$ -	\$ -	\$ -	\$ -
Sewer Main Rehabilitation Project (Construction)	\$ 412,000	\$ -	\$ 1,092,727	\$ 1,125,509	\$ 1,159,274	\$ 1,194,052	\$ -	\$ -	\$ -	\$ -
Estimated Future CIP Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,571,164	\$ 1,618,299	\$ 1,666,848	\$ 1,716,853
Total: Capital Improvement Program Costs (Future-Year Dollars)	\$ 1,493,500	\$ 1,432,215	\$ 1,475,181	\$ 1,519,437	\$ 1,565,020	\$ 1,611,972	\$ 1,571,164	\$ 1,618,299	\$ 1,666,848	\$ 1,716,853

TABLE 11
FORECASTING ASSUMPTIONS:

Economic Variables	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual Construction Cost Inflation, Per Engineering News Record (3)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Cumulative Construction Cost Multiplier from 2016	1.03	1.06	1.09	1.13	1.16	1.19	1.23	1.27	1.30	1.34

- Budgeted CIP project costs from source file: CIP through 2020-21.pdf.
- Estimated future CIP set equal to the average annual capital expenditures for FY 2015/16 through FY 2020/21.
- For reference purposes, the annual Construction Cost Inflation percentage is the 10 year average change in the Construction Cost Index for 2005-2015. Source: Engineering News Record website (<http://enr.construction.com>).

Attachment B

CITY OF LEMON GROVE
SEWER RATE STUDY
Existing Sewer Rate Schedule

EXHIBIT 4

TABLE 12

Annual Sewer Use Charges	Current Rates (1)	Proposed Sewer Rates				
		FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
		0.00%	3.00%	3.00%	3.00%	3.00%
Rate Per EDU (240 gpd)	\$553.17	\$553.17	\$569.77	\$586.86	\$604.46	\$622.60

1. Ordinance No.26.pdf

LEMON GROVE SANITATION DISTRICT

3232 Main Street
Lemon Grove, CA 91945

NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN THAT the Lemon Grove Sanitation District Board of Directors will hold public hearings at the following Board Meetings:

April 18, 2017 at 6:00 p.m., in the Lemon Grove Community Center,
3146 School Lane, Lemon Grove.

May 2, 2017 at 6:00 p.m. in the Lemon Grove Community Center,
3146 School Lane, Lemon Grove.

Subject: To consider a proposed sewer rate increase for customers of the Lemon Grove Sanitation District. The recommended increase in rates is 3.00 percent each year for four-years. This will translate to an increase in the monthly rate for a single family home (or one equivalent dwelling unit) from the existing rate of \$46.10 to \$47.48 (FY 2017/18), \$48.90 (FY 2018/19), \$50.37 (FY 2019/20), and \$51.88 (FY 2020/21). When converted to an annual rate, the current fee will increase from \$553.17 to \$569.77 (FY 2017/18), \$586.86 (FY 2018/19), \$604.46 (FY 2019/20), and \$622.60 (FY 2020/21).

The rates are based upon the use of property within the District, as listed and calculated in the Sanitation District Ordinance No. 27. Residential properties, including condominiums and town homes, are charged a flat rate. Multi-family (apartment buildings including duplexes and triplexes) and mobile home parks are charged on a per unit basis. Commercial properties are charged a rate per one thousand square feet of improvements. Schools are charged based on the number of pupils. Food establishments are charged per type of establishment and number of seats. Self service laundry is charged per washer. Hotels and motels are charged a rate based on living units with or without a kitchen. Churches and auditoriums are charged based on seating capacity.

The increase in fees will fund the increased costs of sewage treatment and transportation by the City of San Diego, City of San Diego capital improvement projects, Lemon Grove Sanitation District capital improvement projects, and will continue to repair and rehabilitate older sewer mains, while building up sufficient reserves for pay-as-you-go financing of the repairs and rehabilitation.

At said hearings, any interested person may appear and be heard. Questions or comments regarding this notice may be addressed to Stephanie Boyce at 3232 Main Street, Lemon Grove, CA 91945 at 619-825-3811, Monday through Thursday between the hours of 7:30 a.m. and 5:30 p.m.

SUSAN GARCIA
DISTRICT CLERK

In compliance with the Americans with Disabilities Act (ADA), the District will provide special accommodations for persons who require assistance to access, attend, and/or participate in meetings of the Sanitation District Board. If you require such assistance, please contact the District Clerk at 619-825-3800 at least five days prior to the scheduled meeting.